

City and County of San Francisco

Office of the Controller – City Services Auditor

AIRPORT COMMISSION:

Concession Audit of Air New Zealand Limited



January 29, 2008

**CONTROLLER'S OFFICE
CITY SERVICES AUDITOR**

The City Services Auditor was created within the Controller's Office through an amendment to the City Charter that was approved by voters in November 2003. Under Appendix F to the City Charter, the City Services Auditor has broad authority for:

- Reporting on the level and effectiveness of San Francisco's public services and benchmarking the city to other public agencies and jurisdictions.
- Conducting financial and performance audits of city departments, contractors, and functions to assess efficiency and effectiveness of processes and services.
- Operating a whistleblower hotline and website and investigating reports of waste, fraud, and abuse of city resources.
- Ensuring the financial integrity and improving the overall performance and efficiency of city government.

The audits unit conducts financial audits, attestation engagements, and performance audits. Financial audits address the financial integrity of both city departments and contractors and provide reasonable assurance about whether financial statements are presented fairly in all material aspects in conformity with generally accepted accounting principles. Attestation engagements examine, review, or perform procedures on a broad range of subjects such as internal controls; compliance with requirements of specified laws, regulations, rules, contracts, or grants; and the reliability of performance measures. Performance audits focus primarily on assessment of city services and processes, providing recommendations to improve department operations.

We conduct our audits in accordance with the Government Auditing Standards published by the U.S. Government Accountability Office (GAO). These standards require:

- Independence of audit staff and the audit organization.
- Objectivity of the auditors performing the work.
- Competent staff, including continuing professional education.
- Quality control procedures to provide reasonable assurance of compliance with the auditing standards.

Audit Team: Mark Tipton, Audit Manager
Edwin De Jesus, Associate Auditor



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

January 29, 2008

San Francisco Airport Commission
P.O. Box 8097
San Francisco International Airport
San Francisco, CA 94128-8097

President and Members:

The Controller's Office, City Services Auditor, presents its report concerning the audit of Air New Zealand Limited (Air New Zealand). Air New Zealand has an airline operating permit from the Airport Commission of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport for its air transportation business.

Reporting Period: June 30, 2004, through June 30, 2007

Landing Fees Paid: \$1,314,351

Results:

Air New Zealand correctly reported 760 revenue aircraft landings, and correctly paid \$1,314,351 in landing fees to the Airport.

Respectfully submitted,

Harriet Richardson

Harriet Richardson
Director of Audits

cc: Mayor
Board of Supervisors
Civil Grand Jury
Budget Analyst
Public Library



INTRODUCTION

Background

Air New Zealand Limited (Air New Zealand) has an operating permit from the Airport Commission (Commission) of the City and County of San Francisco to use the landing facilities at the San Francisco International Airport (SFO) for Air New Zealand's air transportation business. The permit, which commenced on June 30, 2004, requires Air New Zealand to submit to the Airport Department (Airport) a monthly report showing Air New Zealand's actual revenue aircraft landings by aircraft type and other landing data necessary to calculate the landing fees. The Airport charges Air New Zealand a landing fee based on the maximum landing weight of its revenue aircraft landings at SFO. These landings are those for which Air New Zealand has received or made a monetary fee or charge. For every 1,000 pounds of aircraft landed, the Commission sets a fee that it may change annually. During our audit period, the Airport's fee per 1,000 pounds was \$3.930 for fiscal year 2003-2004, \$3.214 for fiscal year 2004-2005, \$3.213 for fiscal year 2005-2006, and \$3.336 for fiscal year 2006-2007.

Scope and Methodology

The purpose of this audit was to determine if Air New Zealand complied with the reporting and payment provisions of its operating permit. Our audit period was from June 30, 2004, through June 30, 2007.

To conduct the audit, we examined the applicable terms of Air New Zealand's permit, and the adequacy of its procedures for recording, summarizing, and reporting revenue aircraft landings. We tested whether Air New Zealand accurately reported its revenue aircraft landings and the maximum landing weights of its aircraft landed at SFO. We also determined whether Air New Zealand had any outstanding payments due to the Airport for the audit period.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS

Air New Zealand Correctly Paid Its Landing Fees to the Airport

From June 30, 2004, through June 30, 2007, Air New Zealand correctly reported 760 revenue aircraft landings and paid \$1,314,351 in landing fees to the Airport. The exhibit below shows Air New Zealand's total revenue aircraft landings and the associated landing fees.

EXHIBIT 1

Number of Reported Landings and Landing Fees Paid June 30, 2004, Through June 30, 2007

| Period | Landing Weight (in lbs) | # of Landings | Total Landing Weight (in lbs) | Rate per 1,000 lbs | Landing Fees Due |
|-------------------------------------|-------------------------|---------------|-------------------------------|--------------------|---------------------|
| June 30, 2004 | | | | | |
| B747-400 | 630,000 | 1 | 630,000 | \$3.930 | \$ 2,476 |
| July 1, 2004, through June 30, 2005 | | | | | |
| B747-400 | 630,000 | 157 | 98,910,000 | 3.214 | 317,897 |
| July 1, 2005, through June 30, 2006 | | | | | |
| B747-400 | 630,000 | 77 | 48,510,000 | 3.213 | 155,863 |
| B777-200 | 470,000 | 166 | 78,020,000 | 3.213 | 250,678 |
| July 1, 2006, through June 30, 2007 | | | | | |
| B747-400 | 630,000 | 46 | 28,980,000 | 3.336 | 96,677 |
| B777-200 | 470,000 | 313 | 147,110,000 | 3.336 | 490,759 |
| Total | | 760 | 402,160,000 | | \$1,314,350* |

* Note: Landing fees paid is \$1 more, or \$1,314,351, due to rounding of amounts.

Source: Airport reports on landing fees and aircraft landings.

ATTACHMENT: AIR NEW ZEALAND RESPONSE



January 15, 2008

Edwin De Jesus
Financial Auditor
City Hall Room 481
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4694

Dear Edwin:

This letter is in response to the recent audit of Air New Zealand Limited (San Francisco) conducted by your organization. It will serve as our official acceptance of the final draft letter issued by Harriet Richardson that summarizes the findings during the audit process.

Again, it was a pleasure working with you during the audit and if you have any further questions or concerns please do not hesitate to contact me at your convenience.

Sincerely,

Ed Barnes
Manager, Airport Operations
Air New Zealand, San Francisco International Airport

STAR ALLIANCE

P.O. Box 250747 • San Francisco International Airport, San Francisco, CA 94125-0747
Telephone 650/821-8310 Facsimile 650/821-8315 Telex SFOKZNZ

ATTACHMENT: DEPARTMENT RESPONSE



San Francisco International Airport

P.O. Box 8092
San Francisco, CA 94128
Tel: 650 821 5000
Fax: 650 821 5005
www.flysf.com

January 11, 2008

AIRPORT
COMMISSION
CITY AND COUNTY
OF SAN FRANCISCO

Ms. Harriet Richardson
Director of Audits
Office of the Controller
City and County of San Francisco
1 Dr. Carlton B. Goodlett Place
Room 316
San Francisco, CA 94102-4694

ARVIN NEWCOM
MAYOR

Re: Audit of Air New Zealand

LARRY MAZZOLA
PRESIDENT

Dear Ms. Richardson:

LINDA S. CRAYTON
VICE PRESIDENT
CARTER

This is to acknowledge receipt of your report dated December 21, 2007 relating to the audit of landing fees paid by Air New Zealand to the San Francisco International Airport during the period June 30, 2004 through June 30, 2007.

LEONOR HERNANDEZ
RICHARD J. GUGLIEMONE

We have reviewed your report and concur with the audit findings.

JOHN L. MARTIN
AIRPORT DIRECTOR

Very truly yours,

Cesar K. Sanchez
Accounting Manager

A handwritten signature in black ink, appearing to read "Cesar K. Sanchez", is written over the typed name and title.

